Public Works and Government Services Canada

Travaux publics et Services gouvernementaux Canada

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Quarterly Financial Report

For the quarter ended September 30, 2011

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1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates A*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, Public Works and Government Services Canada acts as principal banker, accountant, central purchasing agent, translation authority and real property manager to all government departments, boards and agencies.

Further details on Public Works and Government Services Canada's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares the department's spending authorities granted by Parliament to those used by the department. Information in the *Statement of Authorities* is consistent with that in the *Main Estimates* and *Supplementary Estimates A*.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

The Department uses the full accrual method of accounting to prepare and present its annual *Consolidated Departmental Financial Statements* that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on an expenditure basis of accounting.

1.3 Public Works and Government Services Canada's Financial Structure

As a common service provider, Public Works and Government Services Canada uses a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues, Capital Expenditures and Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan and Payments in Lieu of Taxes. The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

Public Works and Government Services Canada's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are summarized as follow:

- For the most part, Public Works and Government Services Canada mainly delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and Vote-Netted Revenue programs. These programs and organizations are mainly designed to provide services to other government departments, and are expected to recover the full cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered.

- In addition, Public Works and Government Services Canada manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.

- Payments in Lieu of Taxes issued by Public Works and Government Services Canada on behalf of other participating federal departments are recovered from those departments, and are recorded as Grants in the Public Accounts of Canada. The timing difference between the time a Payment in Lieu of Taxes is made and the time it is recovered from another department is funded through a statutory vote.

- Public Works and Government Services Canada also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property as well as other properties subject to a management order or forfeited to Her Majesty. Public Works and Government Services Canada recovers its costs when forfeiture and disposition have occurred.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section should be read in conjunction with the *Statement of Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.

As reflected in the *Statement of Authorities*, the Department's total authorities available for use in fiscal year 2011-12 at September 30, 2011 are $2,765 million, compared to $2,997 million at September 30, 2010. The decrease of approximately 8% (or $232.2 million) includes a combination of variances which are summarized in the table below:

YEAR-OVER-YEAR VARIANCES IN TOTAL AUTHORITIES AVAILABLE FOR USE (as at September 30th)

TOTAL AUTHORITIES AVAILABLE FOR USE *(in millions of dollars)*	Year-Over-Year Variances as at September 30th
Accelerated Infrastructure Program	*(130.0)*
Supplementary Estimates A	*(41.0)*
Long Term Vision and Plan	*(31.0)*
Carry Forward from previous fiscal year	*(19.8)*
*Canadian Language Sector Enhancement Program**	*(4.9)*
Severance Payments-From Treasury Board	*21.8*
Canadian Innovation Commercialization Program	*17.3*
Other	*(26.8)*
Vote 1-Operating Expenditures	**(214.4)**
Accelerated Infrastructure Program	*(85.5)*
Long Term Vision and Plan	*(34.0)*
Supplementary Estimates A	*(18.0)*
Carry Forward from previous fiscal year	*63.8*
Pay Modernization Project	*8.9*
Other	*7.9*
Vote 5 – Capital Expenditures	**(56.9)**
*Canadian Language Sector Enhancement Program **	*5.2*
Vote 10 – Contributions	**5.2**
Variances in Business Volumes	*10.3*
Revolving Fund Net Expenditures	**10.3**
Employee Benefits' Plan	*12.7*
Payment in Lieu of Taxes	*8.7*
Other	*2.2*
Other Budgetary Statutory Authorities	**23.6**
VARIANCES IN TOTAL AUTHORITIES AVAILABLE FOR USE	**(232.2)**

**Contribution Expenditures (Vote 10) created in 2011-12 which consist of contributions to the Canadian Language Sector Enhancement Program, was previously reported under Operating Expenditures (Vote 1.) An amount of $4.9 million was included under Operating Expenditures in 2010-11 vs. $5.2 million under Contribution Expenditures in 2011-12.*

Overall in 2011-12, the Department's trends in authorities used and expended are consistent with the previous year. When comparing Net Budgetary Expenditures for the second quarter, the expended portion represents 21% of annual planned expenditures, compared to 19% for the same quarter of last year. Furthermore, year-to-date expenditures represent 49% of annual planned expenditures compared to 48% last year.

The significant variances in year-over-year authorities highlighted above and their respective impact on expenditures to date are explained by the following key elements:

SUMMARY OF SIGNIFICANT VARIANCES - YEAR-OVER-YEAR
As at September 30th, 2011

- **Accelerated Infrastructure Program (Decrease in authorities of $130.0 million under Operating Expenditures and $85.5 million under Capital Expenditures)** – a decrease in 2011-12 year-to-date expenditures of $74.3 million under *Professional and Special Services* and $93.8 million under *Repair and Maintenance* is mostly attributable to the termination of the Accelerated Infrastructure Program in 2010-11.

- **Timing of the Estimates process** – the dissolution of Parliament in early 2011-12 affected the timelines of the Estimates process. As a result, no projects were submitted for approval under *Supplementary Estimates A* this year compared to **$41 million in authorities under Operating Expenditures and $18 million in Capital Expenditures** in 2010-11. Furthermore, there were **decreases in authorities of $31 million under Operating Expenditures and $34 million under Capital Expenditures** related to the Long Term Vision and Plan project for the Parliamentary Precinct.

- **Carry forward from previous year (Decrease of $19.8 million under Operating Expenditures and an increase of $63.8 million under Capital Expenditures when compared to carry forward of 2010-11)** – the carry forward of funds is explained by changes to Public Works and Government Services Canada's investment plan in 2010-11. A corresponding increase in expenditures will be reflected in future quarters.

- **Ratified changes to severance pay entitlements (Increase of $21.8 million under Operating Expenditures)** have resulted in the discontinuance of the accumulation of severance pay for some bargaining units. Eligible employees may now opt for immediate payout of their accumulated severance pay. This change has resulted in an increase in *Personnel* expenditures of $30.5 million in payments to employees paid from the appropriation and $15.1 million in payments to Revolving Funds' employees. The severance payments are generally funded via a central allowance from Treasury Board.

- **Canadian Innovation Commercialization Program (Increase of $17.3 million under Operating Expenditures)** aims to support Small and Medium Enterprises by assisting them in moving their pre-commercial innovations into the marketplace. Although this program was initiated last fiscal year, 2011-12 is the first full year of operation. Expenditures related to this increase in authorities are expected to occur in future quarters.

- **Pay Modernization Project (Increase in Capital Expenditures of $8.9 million)** – this initiative, which began in 2009-10 and ends in 2015-16, is expected to replace the Government of Canada pay system, which will benefit all departments. Expenditures related to this increase in authorities are expected to occur in future quarters.

Most remaining unexplained variances may be attributed to the fact that the planning information used to prepare the *Main Estimates* by Standard Object is based on historical data available at the time of the *Annual Reference Level Update*. This results in estimated figures by Standard Object which may not always reflect the expected expenditures.

3. Risks and Uncertainties

Risks and uncertainties as well as mitigation strategies have been assessed. Of the risks identified through Public Works and Government Services Canada's most recent corporate risk exercises, only one was considered to have a potential financial impact. This risk deals with financial sustainability during times of fiscal restraint. The impact on Public Works and Government Services Canada and the planned mitigation strategies related to this risk are discussed below.

Public Works and Government Services Canada's implementation of the *Strategic Review* (*Budget 2011*), the *Operating Budget Freeze* (*Budget 2010*) and the new deficit reduction action plan results in both risks and opportunities as Public Works and Government Services Canada explores new ways of delivering services. In 2011-12, the impact of these initiatives mainly results in:

- Savings of $35.6 million resulting from: increasing efficiency and effectiveness in the delivery of our programs and services; by focusing on our core roles; and, from meeting the priorities of Canadians.
- A freeze of operating budgets at their 2010-11 levels including the need to operate within our existing envelope for targeted areas, such as absorbing approximately $11 million related to regular salary increases set out in collective agreements.

In addition to its challenge in managing the impact of these fiscal restraint measures on its own administrative cost reductions, Public Works and Government Services Canada is faced with the financial and operational uncertainty that results from its role as a common service provider to federal departments and agencies. The impacts could multiply to respond to changes in the needs and level of demand from clients and the impact of these changes on service quality. A Client Service Strategy has been adopted to build on our best practices to further enhance our department's relationship with client departments by delivering high-quality services that meet current and future client's needs, increase client satisfaction and ensure Canadians receive value for money. This strategy will assist the department in assessing the impact that these restraint measures will have on the demand for its services and ultimately on the department's structure and service levels.

A solid action plan has been developed to mitigate these risks, supported by a more robust Financial Management Framework that includes:

- clarification of accountabilities;
- implementation of a more rigorous approach to the management of revenues, expenditures, forecasting and commitment monitoring; and
- ensuring that integration exists between investment plans, business plans and human resources strategies, and that risks and complexities be considered when new departmental business initiatives are proposed within the context of these plans.

In addition, Public Works and Government Services Canada's financial restraints may limit the organization's ability to hire skilled resources needed to successfully achieve the transformation and realignment agendas and to meet tomorrow's need. This may result in workload management issues and succession planning challenges. To respond to this risk, Public Works and Government Services Canada has implemented departmental strategies to ensure the required workforce is available to deliver its mandate and manage workload issues. In addition, to increase retention of the current workforce, the Department has developed strategies to be the employer of choice, such as the Public Works and Government Services Canada's *People Management Philosophy and our Commitments*, and ensuring employees have the tools and knowledge required to deliver on mandate and new approaches.

Furthermore, Treasury Board's approval of Public Works and Government Services Canada's Strategic Review allowed the department to pursue its strategic direction. The department developed a sound implementation plan including a communication strategy to explain the changes to management and staff as well as a comprehensive human resources plan to minimize the impact on employees. Public Works and

Government Services Canada is proactively monitoring progress to ensure the attainment of service quality objectives. Other steps to be taken include the identification of future funding pressures through consultation with senior executives.

4. Significant Changes to Operations, Personnel and Programs

Like many other departments, Public Works and Government Services Canada has gone through a Strategic Review exercise in which program spending was reviewed to ensure that government programs and services meet the priorities of Canadians and are aligned with federal responsibilities.

The department maintains its commitment to minimize the impact of fiscal restraint measures such as the Strategic Review. In the second quarter, management continued to share timely and accurate updates with employees. At the end of September, the department had secured new employment for 222 of the 307 employees affected by the Strategic Review this year (this excludes 20 employees who are on leave without pay) and human resources strategies continue to be developed to help all remaining affected employees find positions.

Effective August 4, 2011, *Shared Services Canada* was created, pursuant to *s. 31.1 of the Financial Administration Act* and Order-in-Council *PC Number: 2011-0877*. Shared Services Canada's mandate is to standardize and consolidate information technology services in the federal government in order to reduce costs, improve services, and leverage capacity in the public and private sectors through pooled resources and greater buying power.

As a result, Public Works and Government Services Canada transferred to Shared Services Canada the control and supervision of operational domains related to email, data centers and network services, including telecommunications for voice and data. Approximately 1,300 Public Works and Government Services Canada employees associated with the delivery of these services were transferred to the new Department. During this transition period, Public Works and Government Services Canada's Quarterly Financial Report continues to reflect financial information related to the transferred services.

Approved by:

François Guimont, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada

November 24, 2011
Date

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada

November 24, 2011
Date

STATEMENT OF AUTHORITIES (UNAUDITED)

For the quarter ended September 30, 2011

(in thousands of dollars)	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended September 30, 2011	Year to date used at quarter end	Total available for use for the year ending March 31, 2011 *	Used during the quarter ended September 30, 2010	Year to date used at quarter end
Vote 1 - Operating Expenditures						
Gross Operating Expenditures	3,470,859	965,629	1,683,329	3,720,267	912,374	1,660,198
Vote-Netted Revenues	(1,290,529)	(368,557)	(642,351)	(1,325,515)	(372,798)	(618,295)
Net Operating Expenditures	2,180,330	597,072	1,040,978	**2,394,752**	**539,576**	**1,041,903**
Vote 5 - Capital Expenditures	412,788	89,268	123,278	**469,751**	**89,387**	**147,434**
Vote 10 - Contribution Expenditures **	5,210	702	1,392	-	-	-
Statutory Authorities						
Revolving Fund Gross Expenditures	2,296,281	460,614	776,820	2,443,608	543,203	862,629
Revolving Fund Revenues	(2,282,052)	(466,509)	(682,275)	(2,439,727)	(512,904)	(708,093)
Revolving Fund Net Expenditures	**14,229**	**(5,895)**	**94,545**	**3,881**	**30,299**	**154,536**
Other Budgetary Statutory Expenditures	**152,465**	**(107,626)**	**103,737**	**128,828**	**(104,765)**	**84,976**
Total Budgetary Statutory Authorities	166,694	(113,521)	198,282	**132,709**	**(74,466)**	**239,512**
Total Net Budgetary Authorities	**2,765,022**	**573,521**	**1,363,930**	**2,997,212**	**554,497**	**1,428,849**
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(3,746)	(7,643)	-	(3,422)	(10,797)
TOTAL AUTHORITIES * **	**2,765,022**	**569,775**	**1,356,287**	**2,997,212**	**551,075**	**1,418,052**

** Includes Authorities available for use and granted by Parliament at quarter-end only*

*** Contribution Expenditures (Vote 10) created in 2011-12 which consist of contributions to the Canadian Language Sector Enhancement Program, was previously reported under Operating Expenditures (Vote 1)*

**** Includes authorities relating to the new Shared Services Canada (Refer to Section 4-Significant Changes to Operations, Personnel and Programs)*

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED)

For the quarter ended September 30, 2011

(in thousands of dollars)	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Planned expenditures for the year ending March 31, 2012 *	Expended during the quarter ended September 30, 2011	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2011 *	Expended during the quarter ended September 30, 2010	Year to date used at quarter end
Expenditures						
Personnel	1,164,504	362,063	665,030	1,065,912	302,873	587,122
Transportation and Communications	230,960	51,764	95,743	307,115	51,398	91,222
Information	15,948	2,572	4,092	15,696	3,341	5,590
Professional and Special Services	1,570,201	364,667	529,628	1,486,761	407,381	603,944
Rentals	976,550	264,091	544,764	1,171,573	298,677	581,946
Repair and Maintenance	1,194,339	234,949	391,474	1,352,867	288,071	485,340
Utilities, Materials and Supplies	199,908	47,922	72,329	262,660	45,531	69,534
Acquisition of Land, Buildings and Works	225,717	63,269	94,043	319,915	25,353	40,339
Acquisition of Machinery and Equipment	109,589	8,649	12,634	115,085	12,157	18,131
Transfer Payments	55,233	(132,185)	52,888	46,181	(126,334)	42,051
Public Debt Charges	87	-	-	-	-	-
Other Subsidies and Payments	594,567	140,826	225,931	618,689	131,751	230,018
Total Gross Budgetary Expenditures	6,337,603	1,408,587	2,688,556	**6,762,454**	**1,440,199**	**2,755,237**
Less Revenues Netted Against Expenditures						
Revolving Fund Revenues	(2,282,052)	(466,509)	(682,275)	(2,439,727)	(512,904)	(708,093)
Vote-Netted Revenues	(1,290,529)	(368,557)	(642,351)	(1,325,515)	(372,798)	(618,295)
Total Revenues Netted Against Expenditures	(3,572,581)	(835,066)	(1,324,626)	**(3,765,242)**	**(885,702)**	**(1,326,388)**
TOTAL NET BUDGETARY EXPENDITURES	**2,765,022**	**573,521**	**1,363,930**	**2,997,212**	**554,497**	**1,428,849**

* *Includes Authorities available for use and granted by Parliament at quarter-end only*